

13. ACCOUNTANTS' REPORT (Cont'd)

6. SUMMARISED RESULTS (CONTD)

6.11 SMAS

	Years ended 31st March			9 months ended 31st December	12 months ended 31st December
	1999 RM	2000 RM	2001 RM	2001 RM	2002 RM
Revenue	2,959,701	2,541,434	3,039,721	1,908,577	2,201,251
Profit before depreciation and interest	1,361,990	888,045	1,987,312	1,084,239	953,455
Depreciation	(972,182)	(1,117,713)	(1,096,615)	(774,441)	(917,739)
Interest	(474,012)	(321,999)	(319,067)	(293,606)	(332,169)
(Loss)/profit before taxation	(84,204)	(551,667)	571,630	16,192	(296,453)
Taxation	49,785	(156,398)	(20,000)	(69,272)	(130,211)
(Loss)/profit after taxation	(34,419)	(708,065)	551,630	(53,080)	(426,664)
Issued and paid-up share capital					
– no. of ordinary shares of RM1.00 each	900,000	900,000	900,000	1,000,000	1,000,000
– weighted average no. of ordinary shares of RM1.00 each	753,699	900,000	900,000	927,671	1,000,000
Earnings/(loss) per share (RM)					
– gross	(0.11)	(0.61)	0.64	0.02 *	(0.30)
– net	(0.05)	(0.79)	0.61	(0.06)*	(0.43)

* Annualised

Notes to the summarised income statements:

- There were no extraordinary items in all the financial years/periods under review.
- There is a decreasing trend in the revenue over the first 2 years under review due mainly to the economic slowdown. Revenue improved during the financial year ended 31st March, 2001 due to the recovery in the economy resulting in the increase in revenue of 19.6%.
- The loss in the year 1999 was due to the lower gross profit margin whereas the loss in the year 2000 was due mainly to the decline in revenue and increased depreciation charge as a result of the purchase of new motor vehicles.
- The revenue for the year ended 31st December, 2002 is 13.5% lower than the annualised revenue for the period ended December 2001 due mainly to adverse effects on the tourism industry arising from global events. The gross profit margin declined from 66.0% for the period ended December 2001 to 64.1% for the year 2002. This is mainly attributed to the decline in revenue without corresponding reduction in direct costs which are largely fixed costs.
- In addition to a slight increase in insurance charges and maintenance for motor vehicles which in aggregate account for approximately 53.1% of the total direct costs, other operating costs namely staff costs and rental of premises have also increased. As a result, the company recorded a loss before taxation for the year 2002.
- The write-back of taxation for the year 1999 was in respect of reversal of overprovision in prior years.
- No provision was made for taxation in respect of the financial year 2000 as tax on income derived by SMAS had been waived pursuant to the Income Tax (Amendment) Act, 1999. The tax charge represents underprovision in prior years.

13. ACCOUNTANTS' REPORT (Cont'd)

6. SUMMARISED RESULTS (CONTD)

6.11 SMAS (Contd)

Notes to the summarised income statements (Contd):

- (h) The effective tax rate for the year ended 31st March, 2001 is lower than the statutory tax rate applicable due to utilisation of capital allowances brought forward from previous year.
- (i) The effective tax rate for the 9 months ended 31st December, 2001 and year ended 31st December, 2002 is higher than the statutory tax rate applicable as certain expenses are not allowable for tax purposes.
- (j) The gross earnings/(loss) per share is calculated based on the profit/(loss) before taxation and on the weighted average number of ordinary shares in issue in the respective years/ period.
- (k) The net earnings/(loss) per share is calculated based on the profit/(loss) after taxation and on the weighted average number of ordinary shares in issue in the respective years/period.

7. DIVIDENDS

SGB has not declared any dividend since the date of incorporation.

The details of dividends declared or paid by its subsidiary companies, in respect of the financial years/periods under review are as follows:—

Year/ period ended	Issued and paid—up share capital RM	Gross dividend rate %	Net dividend rate %	Net dividend RM	Tax exempt dividend RM	Total dividend RM	
<u>Scomi</u>							
31.12.2000	5,325,000	9.51	6.85	364,764	—	364,764	(Final)
31.12.2001	8,171,239	10.00	7.20	588,329	—	588,329	(Final)
31.12.2002	8,234,642	24.29	17.49	1,440,140	—	1,440,140	(Interim)
<u>KMC</u>							
31.12.1998	2,020,500	50.00	36.00	727,380	—	727,380	(Final)
31.12.1999	2,020,500	240.00	172.80	3,491,424	—	3,491,424	(Final)
31.12.2000	2,020,500	50.00	36.00	727,380	—	727,380	(Final)
31.12.2001	8,082,000	10.00	7.20	581,904	—	581,904	(Final)
31.12.2002	8,082,000	24.75	17.82	1,440,212	—	1,440,212	(Interim)
<u>SMAS</u>							
31.3.2001	900,000	10.00	7.20	64,800	—	64,800	(Interim)
31.12.2002	1,000,000	102.00	73.44	734,000	145,769	880,169	(Interim)

Except for the above, no dividend has been paid or declared by the other subsidiary companies during all the financial years/periods under review.

13. ACCOUNTANTS' REPORT (Cont'd)

8. SUMMARISED BALANCE SHEETS

We set out below the summarised balance sheets of SGB and each of its subsidiary companies for the past five (5) financial years ended 31st December, 2002. The balance sheets should be read in conjunction with the notes thereto.

SGB -- Company

	As at 31.12.2002 RM
Current assets	594,849
Current liabilities	(668,545)
Net current liabilities	<u>(73,696)</u>
Represented by:	
Share capital	2
Loss for the period	<u>(73,698)</u>
	<u>(73,696)</u>
Net tangible liabilities per ordinary share of RM0.50 each	(18,464)

Notes to the summarised balance sheet:

- (a) Included in current liabilities are amounts owing to Kaspadu Sdn. Bhd. and Kota Minerals & Chemicals Sdn. Bhd. totalling RM666,118.

8.2 Scomi – Company

	As at 31st December				
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM
Property, plant and equipment	6,221,270	5,926,751	5,757,647	5,720,477	5,402,992
Subsidiary companies	5,301,250	5,301,250	5,301,250	5,551,250	6,051,250
Current assets	<u>19,168,095</u>	<u>20,658,181</u>	<u>21,804,174</u>	<u>27,025,423</u>	<u>39,697,905</u>
Current liabilities					
– as previously reported	(23,111,166)	(23,398,401)	(9,410,175)	(14,214,903)	(25,341,072)
– prior year adjustment	–	–	364,764	588,329	–
– as restated	<u>(23,111,166)</u>	<u>(23,398,401)</u>	<u>(9,045,411)</u>	<u>(13,626,574)</u>	<u>(25,341,072)</u>
Net current (liabilities)/assets	<u>(3,943,071)</u>	<u>(2,740,220)</u>	<u>12,758,763</u>	<u>13,398,849</u>	<u>14,356,833</u>
	<u>7,579,449</u>	<u>8,487,781</u>	<u>23,817,660</u>	<u>24,670,576</u>	<u>25,811,075</u>
Financed by:					
Share capital	5,325,000	5,325,000	8,231,239	8,231,239	8,294,642
Share premium	4,228,400	4,228,400	13,014,639	13,014,639	13,626,236
(Accumulated losses)/ unappropriated profits					
– as previously reported	(2,107,355)	(1,140,053)	2,196,883	2,606,342	3,714,345
– prior year adjustment	–	–	364,764	588,329	–
– as restated	<u>(2,107,355)</u>	<u>(1,140,053)</u>	<u>2,561,647</u>	<u>3,194,671</u>	<u>3,714,345</u>
	<u>7,446,045</u>	<u>8,413,347</u>	<u>23,807,525</u>	<u>24,440,549</u>	<u>25,635,223</u>
Deferred and long term liabilities	<u>133,404</u>	<u>74,434</u>	<u>10,135</u>	<u>230,027</u>	<u>175,852</u>
	<u>7,579,449</u>	<u>8,487,781</u>	<u>23,817,660</u>	<u>24,670,576</u>	<u>25,811,075</u>
Net tangible assets per ordinary of RM1.00 each	1.40	1.58	2.91	2.99	3.11

13. ACCOUNTANTS' REPORT (Cont'd)

8. SUMMARISED BALANCE SHEETS (CONTD)

8.2 Scomi – Company (Contd)

Notes to the summarised balance sheets:

- (a) The prior year adjustments are in respect of final dividends proposed and accrued as a liability in the respective years. In compliance with MASB Standard 19 – Events After Balance Sheet Date, dividends are now recognised in shareholder's equity in the period in which the obligation to pay is established. As such, final dividends are now accrued as a liability after approval by shareholders at the Annual General Meeting.

8.3 SCT

	As at 31st December				
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM
Property, plant and equipment	17,316	11,875	12,162	58,855	160,804
Current assets	3,867,274	2,770,589	3,319,704	3,465,772	3,470,113
Current liabilities	(2,728,629)	(1,488,093)	(2,065,685)	(2,084,413)	(2,199,265)
Net current assets	1,138,645	1,282,496	1,254,019	1,381,359	1,270,848
	<u>1,155,961</u>	<u>1,294,371</u>	<u>1,266,181</u>	<u>1,440,214</u>	<u>1,431,652</u>
Financed by:					
Share capital	250,000	250,000	250,000	250,000	250,000
Unappropriated profits	905,961	1,044,371	1,016,181	1,190,214	1,169,652
	1,155,961	1,294,371	1,266,181	1,440,214	1,419,652
Deferred taxation	–	–	–	–	12,000
	<u>1,155,961</u>	<u>1,294,371</u>	<u>1,266,181</u>	<u>1,440,214</u>	<u>1,431,652</u>
Net tangible assets per ordinary share of RM1.00 each	4.62	5.18	5.06	5.76	5.68

8.4 SCOPE

	As at 31st December		
	2000 RM	2001 RM	2002 RM
Property, plant and equipment	–	2,436,504	3,545,123
Current assets	2	9,532,158	11,268,148
Current liabilities	(3,500)	(11,744,596)	(13,257,596)
Net current liabilities	(3,498)	(2,212,438)	(1,989,448)
	<u>(3,498)</u>	<u>224,066</u>	<u>1,555,675</u>
Financed by: –			
Share capital	2	250,000	250,000
Accumulated (losses)/profits	(3,500)	(25,934)	1,044,283
	(3,498)	224,066	1,294,283
Deferred and long term liabilities	–	–	261,392
	<u>(3,498)</u>	<u>224,066</u>	<u>1,555,675</u>
Net tangible (liabilities)/assets per ordinary share of RM1.00 each	(1,749)	0.90	5.18

Notes to the summarised balance sheets:

- (a) Included in current liabilities as at 31st December, 2002 is an amount owing to related parties totalling RM8,132,600. The related parties are Kaspadu Sdn. Bhd., Onstream Marine Sdn. Bhd., and Scomi Sdn. Bhd. and its subsidiary companies.

13. ACCOUNTANTS' REPORT (Cont'd)

8. SUMMARISED BALANCE SHEETS (CONTD)

8.5 KMC

	As at 31st December				
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM
Property, plant and equipment	5,206,575	6,851,863	7,015,887	6,355,045	5,604,559
Subsidiary companies	1,613,700	1,343,701	1,343,701	1,343,751	1,343,700
Associated company	–	98,000	245,000	245,000	245,000
Current assets	34,655,703	33,293,674	43,703,162	45,932,723	53,806,161
Current liabilities	(31,667,965)	(25,936,214)	(31,383,859)	(25,062,238)	(21,372,247)
– as previously reported	727,380	3,491,424	727,380	581,904	–
– prior year adjustment	(30,940,585)	(22,444,790)	(30,656,479)	(24,480,334)	(21,372,247)
– as restated					
Net current assets	3,715,118	10,848,884	13,046,683	21,452,389	32,433,914
	10,535,393	19,142,448	21,651,271	29,396,185	39,627,173
Financed by:					
Share capital	2,020,500	2,020,500	2,020,500	8,082,000	8,082,000
Share premium	10,600	10,600	10,600	10,600	10,600
Unappropriated profits					
– as previously reported	6,739,596	11,702,760	17,263,489	19,025,924	30,210,478
– prior year adjustment	727,380	3,491,424	727,380	581,904	–
– as restated	7,466,976	15,194,184	17,990,869	19,607,828	30,210,478
	9,498,076	17,225,284	20,021,969	27,700,428	38,303,078
Deferred and long term liabilities	1,037,317	1,917,164	1,629,302	1,695,757	1,324,095
	10,535,393	19,142,448	21,651,271	29,396,185	39,627,173
Net tangible assets per ordinary share of RM1.00 each	4.70	8.53	9.91	3.43	4.74

Notes to the summarised balance sheets:

- (a) The prior year adjustments are in respect of final dividends proposed and accrued as a liability in the respective years. In compliance with MASB Standard 19 – Events After Balance Sheet Date, dividends are now recognised in shareholder's equity in the period in which the obligation to pay is established. As such, final dividends are now accrued as a liability after approval by shareholders at the Annual General Meeting.

8.6 KMCK

	As at 31st December				
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM
Property, plant and equipment	1,344,757	1,313,479	1,282,199	1,165,635	1,087,435
Current assets	355,652	399,654	517,229	635,970	716,434
Current liabilities	(67,855)	(8,053)	(29,725)	(35,318)	(17,326)
Net current assets	287,797	391,601	487,504	600,652	699,108
	1,632,554	1,705,080	1,769,703	1,766,287	1,786,543

13. ACCOUNTANTS' REPORT (Cont'd)

8. SUMMARISED BALANCE SHEETS (CONTD)

8.6 KMCK (Contd)

	As at 31st December				
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM
Financed by:					
Share capital	1,230,000	1,230,000	1,230,000	1,230,000	1,230,000
Unappropriated profits	370,554	443,080	495,703	516,287	552,143
	<u>1,600,554</u>	<u>1,673,080</u>	<u>1,725,703</u>	<u>1,746,287</u>	<u>1,782,143</u>
Deferred taxation	32,000	32,000	44,000	20,000	4,400
	<u>1,632,554</u>	<u>1,705,080</u>	<u>1,769,703</u>	<u>1,766,287</u>	<u>1,786,543</u>
Net tangible assets per ordinary share of RM1.00 each	1.30	1.36	1.40	1.42	1.45

8.7 KB

Current assets	510,105	504,474	503,087	500,777	496,182
Current liabilities	(1,000)	(2,500)	(4,000)	(4,000)	(4,400)
Net current assets	<u>509,105</u>	<u>501,974</u>	<u>499,087</u>	<u>496,777</u>	<u>491,782</u>
Financed by:					
Share capital	200,000	200,000	200,000	200,000	200,000
Unappropriated profits	309,105	301,974	299,087	296,777	291,782
	<u>509,105</u>	<u>501,974</u>	<u>499,087</u>	<u>496,777</u>	<u>491,782</u>
Net tangible assets per ordinary share of RM1.00 each	2.55	2.51	2.50	2.48	2.46

8.8 KASC

Current assets	2	1,000	1,027	591	581
Current liabilities	(500)	(15,648)	(18,803)	(19,603)	(26,002)
Net current liabilities	<u>(498)</u>	<u>(14,648)</u>	<u>(17,776)</u>	<u>(19,012)</u>	<u>(25,421)</u>
Financed by:					
Share capital	2	2	100	100	100
Accumulated losses	(500)	(14,650)	(17,876)	(19,112)	(25,521)
	<u>(498)</u>	<u>(14,648)</u>	<u>(17,776)</u>	<u>(19,012)</u>	<u>(25,421)</u>
Net liabilities per ordinary share of RM1.00 each	(249)	(7,324)	(178)	(190)	(254)

8.9 SCOTS

	As at 30th September		As at 31st December	
	1999 RM	2000 RM	2001 RM	2002 RM
Property, plant and equipment	-	-	-	826,322
Subsidiary company	-	-	-	2,150,000
Current assets	41,034	35,963	225	205,620
Current liabilities	(42,862)	(39,851)	(2,643)	(2,947,530)
Net current (liabilities)/assets	<u>(1,828)</u>	<u>(3,888)</u>	<u>(2,418)</u>	<u>(2,741,910)</u>
	<u>(1,828)</u>	<u>(3,888)</u>	<u>(2,418)</u>	<u>234,412</u>

13. ACCOUNTANTS' REPORT (Cont'd)

8. SUMMARISED BALANCE SHEETS (CONTD)

8.9 SCOTS (Contd)

	As at 30th September		As at 31st December	
	1999 RM	2000 RM	2001 RM	2002 RM
Financed by:—				
Share capital	2	2	2	500,000
Accumulated losses	(1,830)	(3,890)	(2,420)	(747,648)
	(1,828)	(3,888)	(2,418)	(247,648)
Deferred and long term liabilities	—	—	—	482,060
	(1,828)	(3,888)	(2,418)	234,412
Net liabilities per ordinary share of RM1.00 each	(914)	(1,944)	(1,209)	(0.50)

Notes to the summarised balance sheets:

- (a) Included in current liabilities is an amount owing to related parties totalling RM2,749,070. The related parties are Scomi Sdn. Bhd. and its subsidiary companies.

8.10 SMAS

	As at 31st March			As at 31st December	
	1999 RM	2000 RM	2001 RM	2001 RM	2002 RM
Property, plant and equipment	4,205,441	4,478,262	4,592,909	4,387,727	2,865,337
Current assets	2,452,093	1,554,241	2,306,709	2,511,570	1,971,340
Current liabilities	(3,648,623)	(2,257,419)	(1,842,389)	(1,653,545)	(3,284,483)
Net current (liabilities)/assets	(1,196,530)	(703,178)	464,320	858,025	(1,313,143)
	3,008,911	3,775,084	5,057,229	5,245,752	1,552,194
Financed by:—					
Share capital	900,000	900,000	900,000	1,000,000	1,000,000
Unappropriated profits / (Accumulated losses)	1,357,413	649,348	1,136,178	983,098	(323,735)
	2,257,413	1,549,348	2,036,178	1,983,098	676,265
Deferred and long term liabilities	751,498	2,225,736	3,021,051	3,262,654	875,929
	3,008,911	3,775,084	5,057,229	5,245,752	1,552,194
Net tangible assets per ordinary share of RM1.00 each	2.51	1.72	2.26	1.98	0.68

Notes to the summarised balance sheets:

- (a) The SMAS Acquisition Agreement (Note 9.23) was completed on 9th August, 2002. Pursuant to the terms of the agreement, land and buildings with net book value of RM880,169 have been disposed accordingly. The transfer of title is currently pending the release of charge of the properties by the financial institution upon full settlement of the term loans (Note 9.14).
- (b) Included in current liabilities as at 31st December, 2002 are bank overdrafts and term loans amounting to RM1,947,161. These borrowings are secured against the properties disposed (as stated above), motor vehicles and fixed deposits, and are guaranteed by the directors of the company.

13. ACCOUNTANTS' REPORT (Cont'd)

9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES

The proforma statement of assets and liabilities of SGB Group set out below is based on the audited financial statements of the respective companies in the Proforma Group for the financial period ended 31st December, 2002. The statement is presented for illustrative purposes only on the basis that the transactions under the restructuring exercise and the assumed full exercise of the Employees' Share Option Scheme ("ESOS") options had been effected on 31st December, 2002. The statement should be read in conjunction with the notes thereto.

	Note	Before Public Issue RM	After Public Issue RM	After Public Issue and the assumed full exercise of the 9 mil. ESOS options RM
PROPERTY, PLANT AND EQUIPMENT	9.4	20,419,086	20,419,086	20,419,086
ASSOCIATED COMPANY	9.5	1,283,384	1,283,384	1,283,384
CURRENT ASSETS				
Inventories	9.6	41,110,017	41,110,017	41,110,017
Trade receivables	9.7	35,302,937	35,302,937	35,302,937
Other receivables	9.8	4,455,970	4,455,970	4,455,970
Amount due from an associated company	9.9	731,881	731,881	731,881
Short term deposits with licensed banks	9.10	9,344,314	24,358,334	36,778,334
Cash and bank balances	9.10	6,944,391	6,944,391	6,944,391
		<u>97,889,510</u>	<u>112,903,530</u>	<u>125,323,530</u>
CURRENT LIABILITIES				
Trade payables		27,019,875	27,019,875	27,019,875
Other payables	9.11	17,059,902	17,059,902	17,059,902
Amount due to holding company	9.12	103,319	103,319	103,319
Provision for taxation		1,483,743	1,483,743	1,483,743
Bank borrowings (secured)	9.13	9,678,048	9,678,048	9,678,048
Term loans (secured)	9.14	1,252,367	1,252,367	1,252,367
		<u>56,597,254</u>	<u>56,597,254</u>	<u>56,597,254</u>
NET CURRENT ASSETS		<u>41,292,256</u>	<u>56,306,276</u>	<u>68,726,276</u>
LESS: DEFERRED AND LONG TERM LIABILITIES		<u>62,994,726</u>	<u>78,008,746</u>	<u>90,428,746</u>
Hire purchase payables	9.15	1,203,342	1,203,342	1,203,342
Lease payables	9.16	401,224	401,224	401,224
Deferred taxation	9.17	250,400	250,400	250,400
Term loan (secured)	9.14	1,280,762	1,280,762	1,280,762
		<u>3,135,728</u>	<u>3,135,728</u>	<u>3,135,728</u>
		<u>59,858,998</u>	<u>74,873,018</u>	<u>87,293,018</u>
FINANCED BY:-				
SHARE CAPITAL	9.19	43,835,500	50,000,000	54,500,000
SHARE PREMIUM	9.20	3,070,573	11,920,093	19,840,093
RESERVE ON CONSOLIDATION		13,026,623	13,026,623	13,026,623
LOSS FOR THE PERIOD		(73,698)	(73,698)	(73,698)
SHAREHOLDERS' FUNDS		<u>59,858,998</u>	<u>74,873,018</u>	<u>87,293,018</u>

13. ACCOUNTANTS' REPORT *(Cont'd)*

9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)

Notes to the Proforma Statement of Assets and Liabilities

9.1 BASIS OF ACCOUNTING

The financial statements of the proforma SGB Group have been prepared under the historical cost convention and comply with the applicable approved Malaysian accounting standards and the Companies Act, 1965.

9.2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks, including foreign currency exchange risk, interest rate risk and credit risk. The Group has formulated a financial risk management framework with the principal objectives of minimising the Group's exposure to risks and/or costs associated with the financing, investing and operating activities of the Group.

Various risk management policies are established and approved by the Board for observation in the day-to-day operations for the controlling and management of the risks associated with the deployment of financial instruments by the Group.

(a) Foreign Currency Exchange Risk

The Group is exposed to currency risk as a result of the foreign currency transactions entered into in currencies other than their functional currency. The Group enters into forward foreign currency exchange contracts to limit their exposure on foreign currency receivables and payables, and on cash flows generated from anticipated transactions denominated in foreign currencies.

(b) Interest Rate Risk

The Group's income and operating cash flows are substantially dependent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and is managed through the use of floating rate debt.

(c) Credit Risk

Credit risk arises when sales are made on deferred credit terms. The Group seeks to invest cash assets safely and profitably. It also seeks to control credit risk by setting counterparty limits and ensuring that sales of products are made to customers with an appropriate credit history. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be unlikely.

(d) Financial Assets

The Group's principal financial assets are cash and bank balances, short term deposits, trade and other receivables, and amount owing by an associated company.

(e) Financial Liabilities and Equity Instruments

Debts and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement.

Significant financial liabilities include trade payables and other payables, amounts due to holding company, bank borrowings and term loans.